

Legislative Audit Division

State of Montana



Report to the Legislature

November 1996

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1996

Montana Historical Society

This report contains three recommendations for improving the Society's operations. Items addressed in the report include:

- ▶ Misclassification of Grant Expenditures.
- ▶ Improper Expenditure Abatements.
- ▶ Timely Deposit of Donations.

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act of 1984 and Amendments of 1996, and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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LEGISLATIVE AUDIT DIVISION

November 1996

The Legislative Audit Committee
of the Montana State Legislature:

This report is the result of our financial-compliance audit of the Montana Historical Society for the two fiscal years ended June 30, 1996. Included in this report are three recommendations to the Society to improve fiscal operations associated with society programs.

The written responses to the audit recommendations are included at the end of the audit report. We thank the director and Society staff for their assistance and cooperation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long horizontal line extending to the right.

Scott A. Seacat
Legislative Auditor



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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1996

Montana Historical Society

Members of the audit staff involved in this audit were Tori Hunthausen, Wayne Kedish, Charles Nemec, and Kris Wilkinson.

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Appointed and Administrative Officials

Montana Historical Society			Term Expires
Board of Trustees			<u>July 1 of</u>
	Ward Shanahan, President	Helena	1999
	Susan McDaniel, Vice Pres.	Miles City	1999
	William M. Holt, Secretary	Lolo	1998
	Jean Birch	Great Falls	2001
	Ana Brenden	Scobey	2000
	John J. Burke	Butte	2000
	Jeanne Eder	Dillon	1997
	Thomas Foor	Missoula	1998
	Jack Hayne	Dupuyer	2000
	Anne Hibbard	Helena	2001
	Marge King	Winnett	1999
	Virginia Lucht	Bigfork	2001
	William Mackay	Roscoe	1999
	Vickie McCarthy	Billings	1998
	Ruby Settle	Wibaux	1997
Montana State Historical			Term Expires
Preservation Review Board			<u>October 1 of</u>
	Dennis Deppmeier	Billings	1996
	David Johns	Butte	1999
	Kirk Michels	Livingston	1996
	Arnold Olson	Helena	1997
	Donald A. Wetzel	Billings	1999
	Gloria Weisberber	Missoula	1997
	Jack Horner	Bozeman	1998
	Ms. Theo Hugs	Fort Smith	1998
	Chris King	Winnett	1999
Montana Historical Society			
Administration Officials			
	Brian Cockhill, Director		
	Sharon McCabe, Centralized Services Manager		

Montana Historical Society

This financial compliance audit report contains the results of the audit for the two fiscal years ended June 30, 1996. The previous audit report contained one recommendation to the Society. The recommendation has been implemented. The current audit report contains two accounting issues regarding the improper recording of grant expenditures and expenditure abatements, and one cash management issue regarding timely deposit of donations.

We issued an unqualified opinion on the financial schedules contained in the report. This means the reader may rely on the presented financial information and the supporting data on the Statewide Budgeting and Accounting System.

Report Summary

The listing below serves as a means of summarizing the recommendations contained in the report, the Society's response thereto, and a reference to the supporting comments.

<u>Recommendation #1</u>	We recommend the Society record historic preservation expenditures in accordance with state accounting policy.	6
	<u>Agency Response:</u> Partially Concur. See page B-3.	
<u>Recommendation #2</u>	We recommend the Society revise its abatement policy to comply with state accounting policy.	7
	<u>Agency Response:</u> Do Not Concur. See page B-4.	
<u>Recommendation #3</u>	We recommend the Society comply with state law by making timely deposits of donations received at the Original Governor's Mansion.	8
	<u>Agency Response:</u> Partially Concur. See page B-5.	

Introduction

General

We performed a financial-compliance audit of the Montana Historical Society (Society) for fiscal years 1994-95 and 1995-96. The objectives of the audit were to:

1. Make recommendations, if necessary, for improvement in the management and internal controls of the Society.
2. Determine if the Society complied with applicable laws and regulations.
3. Determine if the Society's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1996.
4. Determine the status of the prior audit recommendations.

This report contains three recommendations to the Society. Other areas of concern deemed not to have a significant effect on the successful operations of the Society are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed the cost of implementing the recommendations contained in this report and determined it was not significant.

Background

According to the Society's director, since its founding in 1865, the Montana Historical Society has remained firmly committed to preserving and interpreting Montana and western American history. This is the foundation upon which all Society program activity is built.

Fifteen trustees, appointed by the Governor with the consent of the Senate, administer the Society. The Society's director, appointed by the Board of Trustees, handles the immediate direction, management, and control of the Society.

The Montana Historical Society is organized into the following five programs. Each program is headed by a manager who reports to the Society director.

Introduction

Administration - The administration program provides supervision and coordination for all programs of the Society. Activities include public information, accounting and business management, financial reporting, fund raising, and security and building management. The program also provides education and tours for the public.

Library/Archives - This program incorporates three functional sections: the library, the archives, and the photograph archives. The different sections each collect distinctive materials and employ distinctive methodologies to organize and service their collections. The staff is responsible for collecting, organizing, preserving, and assisting the public and the staff of other Society programs in the use of this wealth of research material.

Museum - The museum collects fine art, and historical archeological and ethnological artifacts that pertain to Montana and its adjoining geographic region. In addition to caring for the Society's museum collections, program staff conduct research, produce exhibits, sponsor public programs, answer reference requests from the public and provide technical assistance to other museums and historical societies.

Publications - This program consists of three areas: Montana, The Magazine of Western History, the Montana Historical Society Press, and the Montana Historical Society Museum Store. Montana, The Magazine of Western History assists the Society in fulfilling its statutory mission of preserving Montana history and providing educational outreach. The Publications Program is responsible for managing the Society's museum gift shop. The Museum Store operates in response to public demand primarily through direct mail to a broad base of people interested in western history. The proceeds from the Store supports the Press.

Historic Preservation Program - This program exists to encourage Montanans to preserve significant historic and prehistoric buildings and sites in their ownership or care. It offers advice, technical assistance, support, leads to other people, and official comments, as required by law. The underlying philosophy is preserving and, where feasible, using many historic and prehistoric sites and buildings which saves natural resources, provides labor intensive construction, offers interesting and useable space for living and working, and makes our distinctive history visible and understandable to us and to visitors.

Prior Audit Recommendations

Prior Audit Recommendations

The previous audit report for the two fiscal years ended June 30, 1994, contained one recommendation regarding the proper recording of Society assets. The Society has implemented the recommendation.

Findings and Recommendations

Improper Recording of Grant Expenditures

The State Historic Preservation Office (office) of the Society, routinely administers preservation projects. The office receives a federal award of Historic Preservation funds, CFDA #15.904, each fiscal year. At least ten percent of the amount awarded must be transferred to certified local governments. The office also provides funds to other entities for approved proposals. These proposals can include approved “in-house” projects.

Misclassification of Grant Expenditures

During the audit period we determined the Society incorrectly recorded the costs associated with certain preservation projects on the state’s accounting records. We reviewed three “in-house” projects recorded as grant expenditures on the financial records during the audit period. Through review of bid specifications we determined two of the projects are professional consulting service contracts. Federal guidelines combine grants and contracts for reporting purposes; however, state accounting policy distinguishes between the two expenditure categories for recording the activity on the state’s accounting records. Grants are defined under state accounting policy as money derived from federal sources and given to counties, cities, towns, or local agencies to be distributed as specified under the grant agreement. Since the office is contracting for professional services to complete “in-house” projects, the service costs should be recorded as operating services on the state’s accounting records. .

Another project takes a museum exhibit to various locations in Montana. These project costs were incurred by the Society’s museum program; however, the Society reversed the operating costs and recorded them in the preservation program as a grant. These costs were incurred by the Society, not granted to another local government. Federal guidelines state that “in-house” contracts between two programs of the same entity, are not considered contractual agreements with the federal government. In addition, state accounting policy requires expenditures be recorded in the program in which they are incurred.

Society personnel stated they record “in-house” project costs as grants because that is how all project awards from federal funds are

Findings and Recommendations

recorded. They stated they believe the expenditure of federal funds is a grant even though the Society is spending the funds on its own projects.

As a result of the misclassification, grant expenditures are overstated and operating expenditures are understated by \$6,000 in fiscal year 1994-95 and \$16,500 in fiscal year 1995-96. In addition, the museum program expenditures are understated and the preservation program overstated by \$3,610 in fiscal year 1994-95.

Recommendation #1

We recommend the Society record historic preservation expenditures in accordance with state accounting policy.

Improper Expenditure Abatements

State accounting policy states an expenditure abatement is a transaction that reverses an expenditure due to a nonroutine and nonrecurring reimbursement, refund, error or correction. The agencies do not receive appropriations for these costs. State policy requires an agency to record revenues and expenditures for services provided on a regular basis for the convenience of an outside party who later reimburses the agency for these costs. The practice of reversing, or abating expenditures can understate expenditures and revenues. The following examples are circumstances we identified where the Society inappropriately abated expenditures.

- ▶ During the audit period, the Society sponsored an annual competition for students. Winners of the competition travel to Washington, D.C. to compete at the national level. In fiscal year 1994-95, the Society abated \$3,315 for ground transportation and \$4,062 for airfare expenses, on behalf of History Day participants, understating revenues and expenditures by \$7,377. In fiscal year 1995-96, the Society abated \$610 in airfare expenditures, also on behalf of History Day participants. Society personnel explained that they purchase airline tickets and tour packages for coordination of the activities. Personnel indicated that they do not expect to continue with this annual event, instead the Society will offer another event. When accounting for the new event, the Society

Findings and Recommendations

should consider the expenditure abatement criteria established in state accounting policy.

- ▶ When a property is registered as a historical site, the Society provides a sign identifying it as such. The Society established a policy to require the property owner to pay \$25 towards the purchase of each sign. The Society abated \$1,975 and \$2,500 in fiscal years 1994-95 and 1995-96 respectively, for historical site signs. These abatements understated revenues and expenditures for this recurring activity. Society personnel indicated they do not consider these reimbursement revenues or expenditures of the Society.

State accounting policy states that if an agency expects reimbursement from an outside party to off-set a cost, the reimbursement should be included as revenue in the budget. If the activity is recurring, it should be budgeted as revenues and expenditures.

Society personnel indicated this policy does not meet their needs. If the Society has concerns with state accounting policy, personnel should communicate with the Department of Administration.

Recommendation #2

We recommend the Society revise its abatement policy to comply with state accounting policy.

Timely Deposit of Donations

The Society operates tours of the Original Governor's Mansion in Helena. The Society has placed a locked collection box in the mansion for donations, which are used to maintain the mansion. Our review of the deposits of the donations made over the audit period indicated the Society makes infrequent deposits. In fiscal year 1994-95 six deposits totaling \$1,860 were made, in fiscal year 1995-96 five deposits totaling \$2,380 were made.

State law requires state agencies to deposit all moneys when the accumulated amount of coin and currency requiring deposit exceeds

Findings and Recommendations

\$100 or total collections exceeds \$500. State law also requires, at a minimum, deposits should be made weekly.

Society personnel indicated they do not have adequate staff to allow them to send staff to collect the donations on a weekly basis.

Recommendation #3

We recommend the Society comply with state law by making timely deposits of donations received at the Original Governor's Mansion.

Independent Auditor's Report & Agency Financial Schedules

MONTANA LEGISLATIVE BRANCH

Legislative Auditor
Scott A. Seacat

Legal Counsel:
John Northey



Deputy Legislative Auditors:
Mary Bryson
Operations and EDP Audit
James Gillett
Financial-Compliance Audit
Jim Pellegrini
Performance Audit

LEGISLATIVE AUDIT DIVISION

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Montana Historical Society for each of the two fiscal years ended June 30, 1995 and 1996, as shown on pages A-5 through A-16. The information contained in these financial schedules is the responsibility of the Society's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the Society's assets, liabilities, and cash flows.

In our opinion the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana Historical Society for the two fiscal years ended June 30, 1995 and 1996, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

August 14, 1996

MONTANA HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

	General Fund	Special Revenue Funds	Enterprise Funds	Expendable Trust Funds	Nonexpendable Trust Funds
FUND BALANCE: July 1, 1994	\$ 0	\$ 255,132	\$ 467,247	\$ 304,307	\$ 153,200
ADDITIONS					
<u>Fiscal Year 1994-95</u>					
Budgeted Revenues & Transfers In	2,500	677,934	638,658		
Nonbudgeted Revenues & Transfers In		49,245		123,912	36,817
Cash Transfers In		83,511			
Prior Year Transfers In		(4,309)			
Prior Year Expenditure Adjustments	292	982			
Support From State of Montana	1,333,919				
<u>Fiscal Year 1995-96</u>					
Budgeted Revenues & Transfers In	2,000	732,568	634,236		
Nonbudgeted Revenues & Transfers In		9,980		31,988	15,760
Cash Transfers In		88,979			
Prior Year Expenditure Adjustments		6,346	2,676		
Prior Year Expenditure/Deduction			1,092		
Support From State of Montana	1,361,831				
Total Additions	2,700,542	1,645,236	1,276,662	155,900	52,577
REDUCTIONS					
<u>Fiscal Year 1994-95</u>					
Budgeted Expenditures & Transfers Out	1,336,711	742,724	644,831		
Nonbudgeted Expenditures & Transfers Out		65,411	(1,420)	18,780	10,753
Prior Year Expenditure Adjustments			2,204		
Nonbudgeted Prior Year Expenditure Adjustments			(1,646)		
Direct Entries to Fund Balance			487		
<u>Fiscal Year 1995-96</u>					
Budgeted Expenditures & Transfers Out	1,363,466	780,511	706,960		
Nonbudgeted Expenditures & Transfers Out		55,216	(61,977)	28,297	10,033
Prior Year Expenditure Adjustments	365				
Nonbudgeted Prior Year Expenditure Adjustments				(2,400)	
Prior Year Revenue Adjustments		5,733	29		
Total Reductions	2,700,542	1,649,595	1,289,468	44,677	20,786
FUND BALANCE: June 30, 1996	\$ 0	\$ 250,773	\$ 454,441	\$ 415,530	\$ 184,991

This schedule is prepared from the Statewide Budgeting & Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF TOTAL REVENUES, TRANSFERS IN & OTHER ADDITIONS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1996

	General Fund	Special Revenue Funds	Enterprise Funds	Expendable Trust Funds	Nonexpendable Trust Funds	Total
Fiscal Year 1995-96						
TOTAL REVENUES BY CLASS						
Charges for Services	\$ 2,000					\$ 2,000
Investment Earnings				\$ 31,988	\$ 15,760	47,748
Federal Indirect Cost Recoveries		\$ 43,543				43,543
Sale of Documents and Merchandise			\$ 579,673			579,673
Rentals, Leases & Royalties			1,363			1,363
Grants, Contracts & Donations		161,972				161,972
Other Financing Sources		25,573	53,171			78,744
Federal		505,727				505,727
Total Revenues	<u>2,000</u>	<u>736,815</u>	<u>634,207</u>	<u>31,988</u>	<u>15,760</u>	<u>1,420,770</u>
Less: Nonbudgeted Revenues		9,980		31,988	15,760	57,728
Prior-Year Revenue Adjustments		(5,733)	(29)			(5,762)
Actual Budgeted Revenues	<u>2,000</u>	<u>732,568</u>	<u>634,236</u>	<u>0</u>	<u>0</u>	<u>1,368,804</u>
Estimated Revenues	<u>2,500</u>	<u>958,579</u>	<u>812,171</u>			<u>1,773,250</u>
Budgeted Revenues Over(Under) Estimated	<u>\$ (500)</u>	<u>\$ (226,011)</u>	<u>\$ (177,935)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (404,446)</u>
BUDGETED REVENUES OVER(UNDER) ESTIMATED BY CLASS						
Charges for Services	\$ (500)					\$ (500)
Investment Earnings		\$ (4,000)				(4,000)
Federal Indirect Cost Recoveries		(2,457)				(2,457)
Sale of Documents and Merchandise			\$ (177,297) ²			(177,297)
Rentals, Leases & Royalties			(638)			(638)
Grants, Contracts & Donations		(19,508)				(19,508)
Other Financing Sources		(38,927)				(38,927)
Federal		(161,119) ²				(161,119)
Budgeted Revenues Over(Under) Estimated	<u>\$ (500)</u>	<u>\$ (226,011)</u>	<u>\$ (177,935)</u>			<u>\$ (404,446)</u>
Fiscal Year 1994-95						
TOTAL REVENUES BY CLASS						
Charges for Services	\$ 2,500					\$ 2,500
Investment Earnings				\$ 18,912	\$ 13,415	32,327
Federal Indirect Cost Recoveries		\$ 40,129				40,129
Sale of Documents and Merchandise			\$ 586,907		23,402	610,309
Rentals, Leases & Royalties			253			253
Grants, Contracts & Donations		136,787		105,000		241,787
Other Financing Sources		22,686	51,498			74,184
Federal		527,577				527,577
Total Revenues	<u>2,500</u>	<u>727,179</u>	<u>638,658</u>	<u>123,912</u>	<u>36,817</u>	<u>1,529,066</u>
Less: Nonbudgeted Revenues		49,245		123,912	36,817	209,974
Prior-Year Revenue Adjustments						
Actual Budgeted Revenues	<u>2,500</u>	<u>677,934</u>	<u>638,658</u>	<u>0</u>	<u>0</u>	<u>1,319,092</u>
Estimated Revenues	<u>2,000</u>	<u>909,254</u>	<u>652,998</u>			<u>1,564,252</u>
Budgeted Revenues Over(Under) Estimated	<u>\$ 500</u>	<u>\$ (231,320)</u>	<u>\$ (14,340)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (245,160)</u>
BUDGETED REVENUES OVER(UNDER) ESTIMATED BY CLASS						
Charges for Services	\$ 500					\$ 500
Federal Indirect Cost Recoveries		\$ (6,037)				(6,037)
Sale of Documents and Merchandise			\$ (13,592)			(13,592)
Rentals, Leases & Royalties			(748)			(748)
Grants, Contracts & Donations		(11,258)				(11,258)
Other Financing Sources		(6,354)				(6,354)
Federal		(207,671) ²				(207,671)
Budgeted Revenues Over(Under) Estimated	<u>\$ 500</u>	<u>\$ (231,320)</u>	<u>\$ (14,340)</u>			<u>\$ (245,160)</u>

¹ See footnote 7 on page A-16.

² See footnote 6 on page A-15.

This schedule is prepared from the Statewide Budgeting & Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF TOTAL EXPENDITURES, TRANSFERS OUT & OTHER REDUCTIONS BY OBJECT & FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	Administration Program	Library Program	Museum Program	Publications	Historic Sites Preservation	Total
PROGRAM EXPENDITURES BY OBJECT						
Personal Services						
Salaries	\$ 347,962	\$ 335,701	\$ 176,122	\$ 226,049	\$ 264,332	\$ 1,350,166
Employee Benefits	93,393	93,040	47,209	60,923	71,250	365,815
Personal Services-Other				6		6
Total	<u>441,355</u>	<u>428,741</u>	<u>223,331</u>	<u>286,978</u>	<u>335,582</u>	<u>1,715,987</u>
Operating Expenses						
Services	125,050	25,813	33,879	30,700	17,570	233,012
Supplies & Materials	14,008	23,147	30,334	14,300	9,500	91,289
Communications	13,976	8,095	7,444	21,512	11,900	62,927
Travel	13,511	3,162	5,265	6,734	17,050	45,722
Rent	159,024	6,258	2,972	12,222	15,316	195,792
Repair & Maintenance	24,669	10,476	564	1,846	6,895	44,450
Other Expenses	19,023	5,778	2,176	(31,032)	11,811	7,756
Goods Purchased for Resale				237,668		237,668
Total	<u>369,261</u>	<u>82,729</u>	<u>82,634</u>	<u>293,950</u>	<u>90,042</u>	<u>918,616</u>
Equipment and Intangible Assets						
Equipment	1,987	22,835	2,150	(10,544)	16,346	32,774
Total	<u>1,987</u>	<u>22,835</u>	<u>2,150</u>	<u>(10,544)</u>	<u>16,346</u>	<u>32,774</u>
Grants						
From Federal Sources					118,615	118,615
Total					<u>118,615</u>	<u>118,615</u>
Transfers						
Accounting Entity Transfers	10,573			53,171 ¹		63,744
Total	<u>10,573</u>			<u>53,171</u>		<u>63,744</u>
Debt Service						
Installment Purchases	21,715					21,715
Total	<u>21,715</u>					<u>21,715</u>
Total Program Expenditures	<u>\$ 844,891</u>	<u>\$ 534,305</u>	<u>\$ 308,115</u>	<u>\$ 623,555</u>	<u>\$ 560,585</u>	<u>\$ 2,871,451</u>
PROGRAM EXPENDITURES BY FUND						
General Fund	\$ 558,618	\$ 469,547	\$ 228,068	\$ 53,171 ¹	\$ 54,426	\$ 1,363,830
Special Revenue Fund	250,343	3,948	66,806	2,127	506,159	829,383
Enterprise Fund		60,810	13,241	568,257		642,308
Expendable Trust Fund	25,897					25,897
Nonexpendable Trust Fund	10,033					10,033
Total Program Expenditures	<u>844,891</u>	<u>534,305</u>	<u>308,115</u>	<u>623,555</u>	<u>560,585</u>	<u>2,871,451</u>
Less: Nonbudgeted Expenditures	38,330		2,500	(61,977)	52,716	31,569
Prior-Year Expenditure Adjustments	(2,628)	1,025	55	(9,501)	(7)	(11,056)
Actual Budgeted Expenditures	809,189	533,280	305,560	695,033	507,876	2,850,938
Budget Authority	859,332	543,934	394,498	765,228	628,573	3,191,565
Unspent Budget Authority	<u>\$ 50,143</u>	<u>\$ 10,654</u>	<u>\$ 88,938</u>	<u>\$ 70,195</u>	<u>\$ 120,697</u>	<u>\$ 340,627</u>
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 19,367	\$ 353	\$ 363	\$	\$ 885	\$ 20,968
Special Revenue Fund	30,776	8,509	84,771	17,873	119,812	261,741
Enterprise Fund		1,792	3,804	52,322		57,918
Total Unspent Budget Authority	<u>\$ 50,143</u>	<u>\$ 10,654</u>	<u>\$ 88,938</u>	<u>\$ 70,195</u>	<u>\$ 120,697</u>	<u>\$ 340,627</u>

¹ See footnote 7 on page A-16.

This schedule is prepared from the Statewide Budgeting & Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

MONTANA HISTORICAL SOCIETY
SCHEDULE OF TOTAL EXPENDITURES, TRANSFERS OUT AND OTHER REDUCTIONS BY OBJECT & FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 1995

	Administration Program	Library Program	Museum Program	Publications	Historic Sites Preservation	Total
PROGRAM EXPENDITURES BY OBJECT						
Personal Services						
Salaries	\$ 319,776	\$ 330,272	\$ 165,269	\$ 184,270	\$ 267,338	\$ 1,266,925
Employee Benefits	90,685	95,019	45,061	53,414	72,782	356,961
Personal Services-Other				370		370
Total	<u>410,461</u>	<u>425,291</u>	<u>210,330</u>	<u>238,054</u>	<u>340,120</u>	<u>1,624,256</u>
Operating Expenses						
Services	138,677	20,700	18,250	46,705	45,090	269,422
Supplies & Materials	6,514	17,547	12,464	7,883	7,799	52,207
Communications	13,710	7,303	5,485	21,289	13,140	60,927
Travel	14,220	4,071	7,883	10,181	21,951	58,306
Rent	138,504	7,211	2,877	10,331	10,115	169,038
Repair & Maintenance	9,891	10,861	1,272	3,027	3,884	28,935
Other Expenses	16,547	5,010	1,980	9,345	11,709	44,591
Goods Purchased for Resale				249,227		249,227
Total	<u>338,063</u>	<u>72,703</u>	<u>50,211</u>	<u>357,988</u>	<u>113,688</u>	<u>932,653</u>
Equipment and Intangible Assets						
Equipment	29,287	15,428	9,234	(1,500)	13,180	65,629
Total	<u>29,287</u>	<u>15,428</u>	<u>9,234</u>	<u>(1,500)</u>	<u>13,180</u>	<u>65,629</u>
Grants						
From Federal Sources					132,305	132,305
Total					<u>132,305</u>	<u>132,305</u>
Transfers						
Accounting Entity Transfers	10,833			51,498 ¹		62,331
Total	<u>10,833</u>			<u>51,498</u>		<u>62,331</u>
Debt Service						
Leases				(100)		(100)
Total				<u>(100)</u>		<u>(100)</u>
Total Program Expenditures	<u>\$ 788,644</u>	<u>\$ 513,422</u>	<u>\$ 269,775</u>	<u>\$ 645,940</u>	<u>\$ 599,293</u>	<u>\$ 2,817,074</u>
PROGRAM EXPENDITURES BY FUND						
General Fund	\$ 570,217	\$ 444,914	\$ 226,880	\$ 51,498 ¹	\$ 42,910	\$ 1,336,419
Special Revenue Fund	188,894	15,111	38,765	8,000	556,383	807,153
Enterprise Fund		53,397	4,130	586,442		643,969
Expendable Trust Fund	18,780					18,780
Nonexpendable Trust Fund	10,753					10,753
Total Program Expenditures	<u>788,644</u>	<u>513,422</u>	<u>269,775</u>	<u>645,940</u>	<u>599,293</u>	<u>2,817,074</u>
Less: Nonbudgeted Expenditures	29,533			(1,420)	65,411	93,524
Prior-Year Expenditure Adjustments	(99)	(994)		558	(181)	(716)
Actual Budgeted Expenditures	759,210	514,416	269,775	646,802	534,063	2,724,266
Budget Authority	813,702	533,192	320,605	670,394	708,117	3,046,010
Unspent Budget Authority	<u>\$ 54,492</u>	<u>\$ 18,776</u>	<u>\$ 50,830</u>	<u>\$ 23,592</u>	<u>\$ 174,054</u>	<u>\$ 321,744</u>
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 7,102	\$ 2,596	\$ 5,771			\$ 15,469
Special Revenue Fund	47,390	2,734	45,059		\$ 174,054	269,237
Enterprise Fund		13,446		\$ 23,592		37,038
Total Unspent Budget Authority	<u>\$ 54,492</u>	<u>\$ 18,776</u>	<u>\$ 50,830</u>	<u>\$ 23,592</u>	<u>\$ 174,054</u>	<u>\$ 321,744</u>

¹ See footnote 7 on page A-16.

This schedule is prepared from the Statewide Budgeting & Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-13.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1996

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana Historical Society (Society) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Expendable Trust Funds. In applying the modified accrual basis, the Society records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the Society incurs the related liability and it is measurable.

State accounting policy also requires the Society to record the cost of employees' annual leave and sick leave when used or paid.

The Society uses accrual basis accounting for Proprietary and Nonexpendable Trust Funds. Under the accrual basis, as defined by state accounting policy, the Society records revenues in the accounting period earned if measurable and records expenses in the period incurred, if measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the Society received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. Effective July 1, 1996 the Legislative Audit Committee approved a new financial schedule format for inclusion in agency audit reports. The new format includes nonbudgeted revenues and expenditures activity, as well as, all prior year adjustments for all financial schedules presented. In addition, financial activity for agency funds, if applicable to the agency, is included in the Schedule of Changes in Fund Balance and Property Held in Trust. The financial schedules included in this report are presented according to the revised format.

Notes to the Financial Schedules

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The Society uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Society Special Revenue Funds include federal assistance programs, historic sites and signs programs, and donations.

Proprietary Funds

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. The Society accounts for the publication program which includes merchandise, magazine, and Historical Society press operations, and the library and museum photocopies, in the Enterprise Fund.

Fiduciary Funds

Trust and Agency Funds - to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. The Society records private donations established as trusts which permit spending of the principal in the Expendable Trust Fund. The Society records private donations which permit spending only earnings from investments in the Nonexpendable Trust Fund.

2. Annual and Sick Leave

Employees at the Society accumulate both annual and sick leave. The Society pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. In the Proprietary Funds, the increase in annual and 25 percent of the increase in sick leave are recognized as nonbudgeted expenses when the related liability is

Notes to the Financial Schedules

recorded at year end. The Society absorbs expenditures for termination pay in its annual operational costs. At June 30, 1996 the Society had a liability of \$150,338 and \$27,428 in the General Long-Term Debt Account Group and Proprietary Fund, respectively.

- | | | |
|----|-----------------------------|--|
| 3. | Pension Plan | Employees are covered by the Montana Public Employees' Retirement System (PERS). The Society's contribution to PERS was \$81,175 in fiscal year 1994-95 and \$90,103 in fiscal year 1995-96. |
| 4. | General Fund Balance | The General Fund is a statewide fund. Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero. |
| 5. | Museum Collection | Museum collections at the Society include historical, archeological, ethnographic, firearms, and the permanent fine arts collections. Library and archive collections consist of books, periodicals, maps, microfiche, photographs, monographs, and manuscripts. It is the Society's policy to record acquisitions as additions to the collection. Due to a change in accounting standards, since 1992 donations have not been recorded as additions. The Society recorded the estimated value of its collection as of June 30, 1996 at \$42,007,735. |
| 6. | Revenue Estimates | The Schedule of Budgeted Revenue and Transfers In for the Special Revenue Fund shows large estimated revenues in relation to actual revenues for the "Federal" revenue classifications. Because federal revenue is difficult to estimate, Society management generally estimate higher, rather than lower, for these types of revenues. The Schedule of Budget Revenue and Transfers In for the Enterprise Fund shows large estimated revenues in relation to actual revenues for the "Sale of Documents and Merchandise." This revenue is dependent on catalogue sales, gift shop sales, and publication sales. These revenues are difficult to estimate. |

Notes to the Financial Schedules

7. **General Fund Transfer**
- The publications program is budgeted for a general fund transfer to pay the cost of two FTE involved in publishing *Montana, the Magazine of Western History*. The magazine is not self-sustaining and the general fund transfer is to subsidize its publication. The program received a general fund transfer of \$51,498 and \$53,171 in fiscal years 1994-95 and 1995-96, respectively.
8. **Related Parties**
- The Montana Historical Society Foundation, Inc., (Foundation) is a private nonprofit organization affiliated with the Society. The Foundation operates exclusively for the purposes of promoting, assisting, and supporting the operations of the Society.
- Friends of the Society volunteer organization provided 3,891 hours of service to the Society from April of 1995 through March of 1996, almost the equivalent of two full-time employees. Volunteers assisted with cataloging artifacts, assisting in the museum store, leading tours, planning and hosting receptions, transcribing oral history tapes and preparing mailings.
- The Original Governor's Mansion Restoration Board operates exclusively for the purpose of promoting, assisting and supporting the restoration of the Original Governor's Mansion.

Agency Response



Montana Historical Society

225 No. Roberts • PO Box 201201 • Helena, MT 59620-1201 • (406) 444-2694 • FAX (406) 444-2696

October 23, 1996

OCT 23 1996

Scott Seacat
Legislative Auditor
Legislative Audit Division
State Capitol
Helena, Mt. 59620

Dear Mr. Seacat:

The following is our response to the recommendation in the Financial Compliance Audit for the two years ending Fiscal Year 1996.

Recommendation # 1

We recommend the Society record historic preservation expenditures in accordance with state accounting policy.

The Society partially concurs.

The Audit Report does not include the complete definition of the state's accounting policy for Federal Grants. The complete definition needs to be included to confirm the Society's authorization to make grants for Historical Preservation to other than Public/Government entities. According to state policy the expenditure category "6200-Grants", states "Monies derived from Federal sources and given to counties, cities, towns, school districts, local agencies, **professional societies, etc. to be used or distributed by the recipient entities as specified by the grant agreement.**" We do not agree with the auditor these are "In-House" contracts, but are Subgrants. The National Register Programs Guideline (NPS-49) also define subgrant as "**An award of financial assistance made under a grant to an eligible subgrantee by a grantee.**" The Society maintains all definitions must be utilized to determine the classification of the expenditures.

The Society often has subgrants, in which the Society designs the specifications to meet the

unique specific requirements of a project according to federal guidelines or professional guidelines. This is not an unusual occurrence. The program issues requests and advertisements for people to respond to certain kinds of projects. One example looked at by the auditors was a Tipi Ring concept brought to the Preservation Program by a private owner interested in Tipi Rings. This interest then expanded for broader applications to cover a whole class of research types. The other project reviewed by the auditor, "The Historic Preservation Services Directory" also was a project benefitting the state and not specifically the program. These two projects are therefore classified properly according to State Accounting Policy.

The Society maintains the Museum Exhibit Project was correctly recorded in the grants area. The audit report states the Society does this because "that is how all project awards from federal funds are recorded". This is an incorrect statement. The Society recorded these expenses in the grants area because they were grants. With the federal government approving the Museum Exhibit Project as a subgrant, the Society maintains this grant is classified correctly. This expense was only reversed since it was recorded in the improper center. If the Society were to record this activity as the auditor is requesting then the Historic Preservation Program grant category would be misclassified. Because the 2nd level object of expenditure rolls up into the correct fund and program there is no significant financial misstatement.

The Society will continue to review subgrant and contracts to ensure they are properly classified.

Recommendation #2

We recommend the Society revise its abatement policy to comply with state accounting policy.

The Society does not concur.

According to state accounting policy Management Memo 2-94-2 "Expenditure Abatements" - "the crediting of an object of expenditure on a collection report - are appropriately used...", when **"Reimbursements of specific items incurred by an agency which are nonrecurring and nonroutine in nature and are the responsibility of the outside party."**

History Day is an annual event which is not part of the normal everyday business of the Society. Due to budget cuts the Society does not know if History Day will continue from one year to the next. Nor does the Society know what type of expenses will be incurred by the Society or the participants. The expenses were not done for the coordination or convenience of the participants, but the Society and a few citizens of the state to be able to participate in National History Day. More specifically, the only way the Society and the participants are able to register, purchase ground transportation, register for rooms, etc. is as a group. The possibility of 20 people correctly registering, staying in the same place, traveling throughout Washington D.C. on the same tour buses, eating at the same spots, etc. is slim if everyone had registered separately. Therefore all costs incurred were done as a group through the Society as a logical representative instead of each individually. If the Society were to record this as revenue and expenses it is our opinion revenue and expenses would be overstated. The Society should continue to record the costs of only the state personnel in attendance as expense, as a result show only the actual

revenue and expenditures of the state.

When a property is registered as a historical site the property owner may request a sign which states briefly the Historical significance of the site. The property owner must pay \$25.00 of the sign cost. This is the cost of the sign to the property owner. This is required in order for the property owner to have a vested interest in the sign. Also, the only way the vendor would perform the production of the signs is to receive one check from the Society instead of one check from the society and a dozen from the property owners. Therefore the sign cost is made up of the Society's portion of the cost and the property owner's portion of the cost. According to state accounting policy factors to consider for recording expenditure abatements are "The purpose of the service has to be taken into consideration to determine if the reimbursement from an outside party is recorded as expenditure abatement or recorded as revenue." Again in this instance, revenue and expenses would be overstated by the \$25.00 per sign or \$1,975.00 in FY95 and \$2,500.00 in FY96.

The Society will work with Department of Administration to clarify the expenditure abatement definition as it applies to the Society.

Recommendation #3

We recommend the Society comply with state law by making timely deposits of donations received at the Original Governor's Mansion.

The Society partially concurs.

The Society maintains compliance with the intent of the law for safeguarding state assets. As in the past and currently the Original Governor's Mansion (OGM) has maintained a security system which is wired into the police station. The OGM has a large, very secure, double keyed collections box. It is a box that is nearly impossible to break into, takes three employees to open, and can not be easily carried away. The keys to the collection box are kept in the safe at the Montana Historical Society Centralized Services. Centralized Services must notify the Tour Guide upon arrival, so the alarm system can be deactivated and employees can enter the OGM.

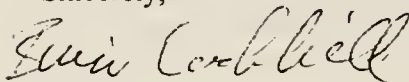
The collection box has promotional aspects, in that it invites the public to contribute, since it is large and transparent and the public realizes that donations are needed. On a weekly basis a Centralized Services employee inquires to the amount of donations and when the donations in the box appear to be of significant amount the Tour Guide notifies Centralized Services a collection is warranted. Two employees from Centralized Services with the help of the Tour Guide empties the cash from the collection box at OGM. The two Centralized Services employees return to the Society to count and deposit the donations.

The OGM tours are offered in the off season (winter months) by appointment. There were tours in January and February of both fiscal years audited. It is assumed the amount of donations given in these tours was not of significant amount for the Tour Guide to notify Centralized Services to collect the donations until late in February.

The Society performed a test in July 1996 (busy season) where it collected \$95.50. After personnel and mileage cost it netted \$66.55. Because of budget cuts the Society must use its judgement weighing the safeguard of state assets to the cost vs. benefits derived in the collection of the donations according to state law.

The Society will work towards depositing the donations received at least weekly and at the same time request an exception from the Legislature for this requirement.

Sincerely,

A handwritten signature in cursive script, appearing to read "Brian Cockhill".

Brian Cockhill
Director

